

Summary Document

Highlights of Revisions to Western Area Power Administration OATT, LGIP, LGIA October 2004

Revisions to Open Access Transmission Tariff (OATT)

Point of Contact Language

Specific references to a point of contact and mailing addresses for applying for transmission service were removed from the Open Access Transmission Tariff (OATT) and will be replaced by a link on the Western Area Power Administration (Western) internet home page.

References to Regional Reliability Councils

All references to regional reliability councils were updated to reflect the proper names.

Deposit Amounts for Transmission Service Requests

Under the current OATT, each Western Regional Office (Region) charges a specific cost-based application fee for processing a firm point-to-point or Network Integration Transmission Service (NITS) request of one year or longer. This fee ranges from \$1,300 to \$1,700. Western has reviewed and updated its costs and will standardize this fee at \$3,500 across all Regions.

Western's current OATT does not require a deposit of the first month's service in conjunction with an application for service. Such deposits are allowed under the Federal Energy Regulatory Commission (FERC) Pro Forma Tariff, which requires that the

deposit be returned with interest at the end of the service term. All future Firm Point-to-Point requests of one year or greater, all new NITS Transmission Customers, and all new NITS generators will be required to submit a deposit equal to an estimate of the first month's service charges. This deposit requirement shall be capped at a maximum of \$100,000, regardless of the service being requested. Transmission Customers will also be given an option of establishing an interest bearing escrow account. The deposit will be returned, without interest, if a service agreement is not executed or as a credit toward the first month of service.

For Non-Firm requests, and for requests of less than one year, the current practice of not requiring an application fee or deposit will continue.

Network Operating Agreements and Committees

Under the current OATT, Network Operating Agreements (NOAs) (Attachment G) are required for all NITS contracts in all Regions except the Upper Great Plains Region (UGPR), which points to the Mid-Continent Area Power Pool (MAPP) requirements in place of NOAs. The OATT also requires Network Operating Committees (NOCs) comprised of all NITS customers. In practice, the Regions successfully provided NITS with only limited use of NOAs and NOCs, as defined in the OATT. Western has held other meetings as appropriate with NITS customers, and has executed NOAs in cases that require them and this approach has worked well. Therefore, both NOAs and NOCs will be made optional for each NITS contract in every Region.

Allow for Advance Collection of Fees for Ancillary Service Pass-Through Costs

Section 3 of the OATT allows a Transmission Customer to request that Western procure ancillary services from a third party in some circumstances, and pass the costs on to the Customer. Western should be able to collect costs for such ancillary services in advance, before Western is required to make payment to the third party. Section 3 has been modified to allow for such advance payments at Western's discretion.

Creditworthiness

Section 11 of the OATT establishes how the Transmission Customer will demonstrate its ability to make payments and fulfill its financial obligations to Western for service agreements entered into under the OATT. Western has made a change that would allow Western, at its discretion, to exercise an option of requiring a Transmission Customer to pay its bills in advance, as a means of assuring the Customer meets its financial obligation, in situations for which the creditworthiness of the Customer is a concern.

Contingent Upon Authorization Language

When Western submits its annual budget request to Congress, it includes a request for appropriations and a request for obligation authority to spend funds from other sources, such as Trust and Reimbursable authorities. The existing “Contingent upon Appropriations” language in Western’s OATT focuses only on continuing appropriations beyond the current fiscal year. Western will add “Contingent upon *Authorization*” language to the OATT to assure Western is released from the requirement to perform under any contract that would result in Western acting outside the Congressionally *Authorized* funding levels.

Transmission Peak Calculation Method

Tariff Section 34.3 regarding the calculation of the Transmission System peak has been updated to agree with Western’s approved transmission rate schedules. In Western’s rate schedules, the Transmission System peak load includes only Long Term Firm Point-to-Point Transmission Service reservations. However, section 34.3 of the existing Tariff, which currently conforms to the Pro-Forma Tariff, indicates that all (long and short-term) Firm Point-to-Point reservations should be included in the system load calculation. The language is being clarified to indicate that short-term firm reservations are excluded from the transmission system peak calculation. Revenues earned from short-term Firm Point-to-Point reservations are being accounted for in the transmission rate by deducting it from the transmission revenue requirement.

Attachment K Issues Related to Boulder Canyon Firm Power Customers and Path 15

The following language is being inserted into the Desert Southwest Region (DSWR) section of Attachment K:

“For the purpose of implementing this Tariff, references in the Tariff to ‘deliveries of long-term firm capacity and energy’ include the deliveries of Boulder Canyon Project electric service over the DSWR Transmission System.”

The DSWR language to be inserted was published in the *Federal Register* Notice correction notice in January of 1998, for inclusion into the OATT. However, it was inadvertently left out of the text of the OATT submitted to FERC. This language is being added back in, as originally intended.

Language is also being added to Sierra Nevada Region’s (SNR’s) section of Attachment K which explains that Path 15 has become part of that Region’s transmission system.

However, the language clarifies which transmission facilities SNR is offering OATT service over. SNR will not offer service over Path 15, as control of those facilities will be turned over to the California Independent System Operator which will offer service over this path under their tariff.

“Change of Rates” Termination Language

When Western filed its original OATT, it had not yet developed applicable separate rates for transmission and ancillary services to be applied under the OATT. At that time, Western included in Attachment J to the OATT a number of provisions from its General Power Contract Provisions (GPCPs) that it felt were applicable to OATT service. One of those provisions, known as the “Change of Rates” provision, allowed Western to adjust its rates on a periodic basis and allowed customers to give notice of intent to terminate service within 90 days after such changes.

In developing separate rates for transmission and ancillary services to be applied under the OATT, Western adopted formula rates for most of the Federal transmission system projects. Under a formula rate, the most current data for revenue requirements and load are inserted into the formula annually, and the result of the formula establishes the rate for that year. While Western does not believe this process constitutes a “Change of Rates”, this language leaves open the possibility that a customer could attempt to exercise that provision in any year. Such a request would be inappropriate, as the customer is aware when contracting for service, that the rate is adjusted annually based on the formula. Therefore, the existing “Change of Rates” provision will be modified to delete this language.

Accommodate Longer Term Non-Firm Service

Under the existing OATT, Non-Firm Point-to-Point service is limited in term to not exceed one month of service. Section 1.27 has been modified to allow Regions the option to provide longer-term Non-Firm service and to do so under business practices to be posted on the applicable OASIS site.

Accommodate Regional Energy Imbalance Schedule Alterations

Since the filing of the current OATT, the Rocky Mountain Region (RMR) utilized a public process to modify Energy Imbalance provisions used to bill its customers. These changes include the elimination of the option to allow for repayment-in-kind, and the expansion of the deviation band currently referenced in the OATT. Changes in OATT Schedule 4 have been made to clarify that Western has the option to use in-kind or financial repayment and to increase the bandwidth.

Late Payments for OATT Service

The late payment provisions of Western's current OATT, which define how much to charge late-paying Transmission Customers, comply with the Pro-Forma Tariff provisions. However, there is currently a different methodology for calculating late fees for Western's firm power customers. The late fees assessed on firm power deliveries, based on the methodology set forth in Western's GPCP, result in higher interest charges than the OATT methodology. Due to difficulties Western has experienced in receiving timely payments under the OATT, late payment interest provisions have been conformed to Western's current GPCP provisions. This is required to ensure that Western does not experience cash-flow or Anti-Deficiency concerns due to excessive late payments. Western may also require advance payment for customers that are chronically late submitting payments.

Costs Associated with United States Bureau of Reclamation and United States Army Corps of Engineers Interconnections

Western and the United States Bureau of Reclamation (Bureau) and the United States Army Corps of Engineers (Corps) have a unique statutory relationship which requires the Transmission Provider to repay to the United States Treasury obligations incurred by those two entities related to the production of power. Requiring the Bureau or Corps to submit deposits to the Transmission Provider or to directly pay for costs associated with interconnection study work under the Tariff, including the Large Generator Interconnection Agreements (LGIA) or Large Generator Interconnection Procedures (LGIP), will result in additional unnecessary administrative burdens and overhead charges. Therefore, the Transmission Provider reserves the right, at its discretion, to not require the Bureau or the Corps to pay negotiation costs under the LGIP, or submit deposits in whole or in part for study work or for placing reservations in the queue. Transmission Provider will account for these costs under the OATT, including the LGIA or LGIP as if such costs had been paid by the Bureau or Corps.

Revisions to LGIP and LGIA

The Pro-Forma Large Generator Interconnection Procedures (LGIP) and Agreements (LGIA) include numerous provisions containing language that would subject Western to FERC's jurisdiction or that of a State authority. There are also a number of provisions related to taxes, indemnification, liability, liquidated damages, and contract assignment that do not apply to Western. Western has removed these references from the LGIA and LGIP or revised them. Western has also modified its LGIA to reflect its requirements under the National Environmental Policy Act and other environmental laws.

Payment of Interest

The Pro-Forma LGIP and LGIA include language requiring the payment of interest on deposits made to, and penalties paid by, transmission providers. Western does not pay interest under the OATT. However, methodology has been developed that will hold Western's firm power and transmission rate-payers harmless, while allowing for the payment of interest on capital investments for customer funded transmission upgrades associated with large generator interconnections. Interest payments will be provided, capped at the applicable Federal interest rate, through a bill-crediting mechanism.

Task Completion Deadlines

The Pro-Forma LGIP and LGIA contain numerous task completion deadlines that will be difficult for Western to consistently meet given its current regional staffing restrictions and workload levels. The LGIP and LGIA have been modified so that Western may meet all deadlines using "Reasonable Efforts."

Provision of Security versus Advance Payment

Pro-Forma LGIA Article 11.5 would require Western to accept a guarantee, a surety bond, letter of credit or other form of security in lieu of actual payment for procuring, constructing, and installing network upgrades and other such facilities. However, Western does not accept a provision of security to perform such services; rather, it requires advance payment to do so. Western has modified Article 11.5 with language requiring advance payment for all work related to procuring, constructing, and installing network upgrades and other such facilities.

Binding Cost Estimates

Pro-Forma LGIP Section 8.3 and Attachment A to LGIP Appendix 4 may implicitly require Western to charge the interconnection customer only up to the amount of cost estimates to be provided by Western regarding the construction of interconnection facilities. However, under this provision, Western could potentially violate the Anti-Deficiency Act if the costs of such construction were to exceed its estimates. Language has been inserted into LGIP Section 8.3 and Attachment A to LGIP Appendix 4 stating that, regardless of the provided estimates, Western will charge the interconnection customer for all actual amounts, and that payment for any services will be made in advance in accordance with LGIA Article 11.5, as discussed under the preceding issue.

Term of the LGIA

LGIA Articles 2.2 and 2.3 would allow the LGIA to remain effective in perpetuity by stating “this LGIA shall remain in effect for a period of ten (10) years from the Effective Date or such other longer period as the Interconnection Customer may request (Term to be specified in individual agreements) and shall be automatically renewed for each successive one-year period thereafter” and by providing for termination of the LGIA only through written notice, respectively. However, Western is not allowed to execute agreements without termination dates. LGIA Articles 2.2 and 2.3 have been modified to explicitly limit the maximum term of the LGIA to 40 years.

Meter Testing Period

Pro-Forma LGIA Article 7.4 would require Western to inspect and test all Western-owned metering equipment upon installation and at least once every two years thereafter. However, certain Western regions have established metering testing policies for state-of-the-art meters that have test intervals exceeding two years. These testing policies take into consideration resources available for inspection as well as the need for inspection given current equipment. LGIA Article 7.4 has been modified to provide that Western-owned meters will be tested in accordance with regional meter testing policies.

Inspection Costs

Pro-Forma LGIA Article 5.2.(5) allows Western to inspect any transmission provider interconnection facilities being constructed by the Interconnection Customer, but does not pass the costs of those inspections to that other party as Western typically requires. LGIA Article 5.2.(5) has been modified to require the Interconnection Customer to pay Western’s costs for inspection of any transmission provider interconnection facilities being constructed by the Interconnection Customer.

Crediting for Network Upgrades

Western has clarified how it will provide credits for Network upgrades under the LGIA, including methods for calculating interest on funds advanced for these upgrades, to reflect Western’s policies toward bill-crediting and payment of interest on capital investments associated with large generator interconnections.

Network Upgrade Construction by the Interconnection Customer

Western has modified LGIA Article 5.1 to include language related to system security and Good Utility Practices and Western's document standards.

Voice Communications Systems

Western has revised LGIA Article 8.1 to make it clear that voice communications equipment will be installed at the interconnection customer's expense.

Participant Funding for Network Upgrades

Consistent with FERC direction, Western will reserve the right to negotiate Participant Funding on a case-by-case basis. Western will add the following statement to its LGI compliance filing's transmittal letter and to Attachment J of its OATT: "With respect to the issue of participant funding for interconnection network upgrades, so that Western may properly and equitably fulfill its responsibility as the transmission provider for various facilities owned by other entities (including facilities in which Western has a joint ownership stake), Western reserves the right to negotiate participant funding provisions if and when Western deems necessary, and to incorporate the results of such negotiations into the LGIA."

Permits

Western has revised LGIA Article 5.14 to state: "Absent an explicit provision to the contrary in this LGIA, Interconnection Customer shall be responsible for obtaining all permits, licenses and authorizations that are necessary to accomplish the interconnection in compliance with Applicable Laws and Regulations."

Generator Balancing Obligation

Western is concerned about the impact of new generators on its control area operations. Western has added language to LGIA Article 9.4 to clarify its expectations of generators to balance their generation and loads: "Interconnection Customer shall at its own expense be responsible for ensuring that its actual Large Generating Facility output matches the scheduled delivery from the Large Generating Facility to Transmission Provider's Transmission System, consistent with the scheduling requirements of the Transmission Provider's Tariff and any applicable FERC-approved market structure in which the Transmission Provider participates, including ramping into and out of such scheduled delivery, as measured at the Point of Interconnection. To the extent Interconnection Customer's Large Generating Facility output does not match the scheduled

delivery from the Large Generating Facility to Transmission Provider's Transmission System, any such disparate amounts shall be subject to Transmission Provider's Energy Imbalance rate and/or any other applicable scheduling incentives set forth under Transmission Provider's Tariff."

Loads Used in Network Resource Interconnection Service Studies

Western has modified LGIP Section 3.2.2.2 to be consistent with current study procedures prevailing in Regional Reliability Councils that Western operates in that also evaluate loads during off-peak hours: "Large Generating Facility's interconnection is also studied with Transmission Provider's Transmission System at peak and off-peak load . . .". These off-peak hours must be studied in some circumstances, to assure that power system stability problems do not occur during these conditions.

Cost Responsibility for Negotiations

Neither the LGIP nor the LGIA explicitly provide for allocation of the cost responsibility for negotiations. However, the various LGIP provisions addressing negotiations (i.e., LGIP Section 11.2) present the appearance that the Interconnection Customer will more often than not be the cause of any negotiations that occur. Western has added language to clarify that the responsibility for the cost of negotiations is the Interconnection Customer's.

Changes to the Point of Interconnection

Western has added language that allows Western and the Interconnection Customer flexibility in making changes in Points of Interconnection: LGIP Section 4.4.3 shall read: "Any change to the Point of Interconnection, except those deemed acceptable under Sections 4.4.1, 6.1, 7.2 or so allowed elsewhere or otherwise initiated under mutual agreement between Transmission Provider and Interconnection Customer, shall constitute a Material Modification."

Payment of Invoices Under Certain LGIP Appendices

LGIP Appendix 4 ("Interconnection Facilities Study Agreement") requires the Interconnection Customer to pay all relevant invoices within 30 days of receipt, while Appendices 3 ("Interconnection System Impact Study Agreement") and 5 ("Optional Interconnection Study Agreement") do not contain this requirement. Western has revised LGIP Appendices 3 and 5 to add explicit language requiring the Interconnection Customer to pay invoices within 30 days of receipt.

Termination of the LGIA Upon Three Years of No Operation

As revised under a previous issue herein, LGIA Article 2.3.1 states “This LGIA may be terminated by Interconnection Customer after giving Transmission Provider ninety (90) Calendar Days advance written notice.” Western has revised LGIA Article 2.3.1 so that the transmission provider may terminate the LGIA “if the Generating Facility has ceased Commercial Operation for three (3) consecutive years, beginning with the last date of Commercial Operation for the Generating Facility, after giving the Interconnection Customer ninety (90) Calendar Days advance written notice.”

10/18/04